

Message Text

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TAGS: EFIN, EEC

SUBJECT: EUROPEAN INVESTMENT BANK HAS DIFFICULTIES PLANING
BONDS ON THE NEW YORK MARKET

1. SUMMARY: AN OFFICIAL OF THE EUROPEAN INVESTMENT BANK (EIB) HAS RAISED WITH US THE BANK'S DIFFICULTIES IN OBTAINING A PRIME QUALITY RATING FOR ITS BONDS IN THE US MARKET. ACCORDING TO THIS OFFICIAL, US BOND RATING FIRMS HAVE BEEN REPORTEDLY ADVISED BY USG AUTHORITIES TO BE CAUTIOUS IN EXTENDING CREDIT TO INSTITUTIONS WITH HEAVY OBLIGATIONS IN ITALY. WE WOULD APPRECIATE GUIDANCE FOR INFORMAL USE WITH THE OFFICIAL IN QUESTION. END SUMMARY.

2. IN THE COURSE OF A GENERAL DISCUSSION WITH US, THE EUROPEAN INVESTMENT BANK VICE PRESIDENT HORST-OTTO STEFFE RAISED IN STRICT CONFIDENCE THE BANK'S CURRENT PROBLEMS IN OBTAINING AN AAA BOND RATING FROM MOODY'S AND OTHER US RATING FIRMS. NOW THAT THE US INTEREST EQUALIZATION TAX HAS BEEN REMOVED, THE EIB WOULD LIKE TO BORROW ON THE US MARKET.. ACCORDING TO STEFFE, US RATING FIRMS AND UNDERWRITERS ARE CRITICAL OF
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THE FACT THAT OVER 40 PERCENT OF THE EIB'S LOANS WITHIN THE EC

ARE TO PROJECTS IN ITALY. IN 1974 THE EIB MADE 290 MILLION U.A. (\$350 MILLION) WORTH OF LOANS TO ITALY WHICH WAS MORE THAN ONE-THIRD OF THE TOTAL WITHIN THE COMMUNITY AS A WHOLE. STEFFE SAYS US BOND RATING FIRMS REPORT THAT US UNDERWRITERS HAVE BEEN CAUTIONED BY WASHINGTON AUTHORITIES TO REDUCE THEIR EXPOSURE WITH INSTITUTIONS THAT HAVE SUBSTANTIAL OBLIGATIONS IN ITALY.

3. STEFFE POINTS OUT THAT THE EIB'S OBLIGATIONS ARE FULLY BACKED BY THE EC MEMBER STATES. CURRENTLY THE EIB'S SUBSCRIBED CAPITAL FROM THE MEMBER STATES AMOUNTS TO OVER 2 BILLION U.A. (ABOUT \$2.4 BILLION) COMPARED TO ABOUT 3.7 BILLION U.A. OF OUTSTANDING LOANS AT THE END OF 1974.

4. THE EIB RAISED 841 MILLION U.A. (\$1014 MILLION) ON CAPITAL MARKETS IN 1974. MOST OF THESE WERE PRIVATE PLACEMENTS WHICH DREW PRIMARILY ON MIDDLE EASTERN SOURCES OF FUNDS. THE EIB WANTS TO DIVERSIFY THE SOURCES OF ITS FUNDS AND CONSEQUENTLY WOULD LIKE TO ENTER THE US MARKET. BUT THE EIB CANNOT AFFORD TO BORROW IN THE US WITH ANYTHING LESS THAN A PRIME QUALITY RATING. IN ADDITION, IF THE EIB CAN MAKE ONE OR MORE SUCCESSFUL PLACEMENTS IN THE US, IT WILL LIKELY BE ABLE TO OBTAIN MORE FAVORABLE FINANCING TERMS FROM OTHER CREDITORS.

5. STEFFE ASKED US IF USG AUTHORITIES COULD CORRECT THESE ALLEGED STATEMENTS -- IF INDEED THE REPORTS HE HAD RECEIVED FROM US UNDERWRITERS AND BANKERS WERE ACCURATE. HE ADDED IT WOULD ALSO BE HELPFUL TO ASSURE THAT RESPONSIBLE OFFICIALS IN THE US BANKING SYSTEM WERE FULLY INFORMED OF THE RECENT IMPROVEMENT IN THE ITALIAN ECONOMIC SITUATION. US BANKERS MIGHT ALSO BE ADVISED THAT THE EIB HAS THE FULL FINANCIAL BACKING OF ITS MEMBER STATES.

6. COMMENT: WE RECALL THAT IN THE SUMMER AND EARLY FALL LAST YEAR THERE WERE PRESS REPORTS ALLEGING THAT US AUTHORITIES HAD ALERTED US BANK EXAMINERS TO VIEW MEDIUM AND LONG-TERM LOANS TO ITALIAN PRIVATE AND OFFICIAL ENTITIES AS "PROBLEMATIC". WE UNDERSTOOD AT THE TIME THAT WASHINGTON OFFICIALS HAD ATTEMPTED TO CORRECT THE MISSTATEMENTS APPEARING IN THESE PRESS REPORTS. NEVERTHELESS, IT MAY BE THAT THESE
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ALLEGED COMMENTS ARE THE SOURCE OF THE REPORTS THAT STEFFE HAS RECEIVED. WE WOULD APPRECIATE GUIDANCE FOR INFORMAL USE IN REPLYING TO STEFFE'S QUERY.MYERSON

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